

QUANTUM BIT INDUCTION TECHNOLOGY, INC.

FINANCIAL STATEMENTS

April 18, 2002

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Quantum Bit Induction Technology, Inc.
Houston, Texas

We have audited the accompanying balance sheet of Quantum Bit Induction Technology, Inc. (a development stage company) as of March 31, 2001 and the related statements of operations and comprehensive loss, shareholders' deficit, and cash flows for the two years then ended and for the period from January 28, 1999 (date of inception) through March 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quantum Bit Induction Technology, Inc. as of March 31, 2000 and 2001 and the results of its operations and its cash flows for the two years then ended and for the period January 28, 1999 (date of inception) through March 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company is in the development stage and has had a retained deficit since its inception and is dependent upon its ability to continue to raise capital. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Thomas Leger & Co., L.L.P.

QUANTUM BIT INDUCTION TECHNOLOGY, INC.
(A Development Stage Company)
BALANCE SHEET
MARCH 31, 2001

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 9,470
Short-term investments	<u>57,700</u>

Total current assets 67,170

PROPERTY AND COMPUTER EQUIPMENT, net 2,429

TOTAL ASSETS \$ 69,599

LIABILITIES AND SHAREHOLDERS' DEFICIT

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 56,239
Payable to officer	623,826
Short-term note payable	<u>30,000</u>

Total current liabilities 710,065

SHAREHOLDERS' DEFICIT

Common stock, par value \$.001, 200,000,000 shares authorized, 45,000,000 shares outstanding	45,000
Paid-in capital	26,130
Deficit accumulated during the development stage	(677,333)
Accumulated other comprehensive loss	<u>(34,263)</u>

Total shareholders' deficit (640,466)

TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT \$ 69,599

The accompanying notes are an integral
part of these financial statements.

QUANTUM BIT INDUCTION TECHNOLOGY, INC.
(A Development Stage Company)
STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS

	<u>For the Year Ended March 31</u>		<u>January 28, 1999</u>
	<u>2001</u>	<u>2000</u>	<u>(Date of Inception) to</u>
			<u>March 31, 2001</u>
REVENUE	\$ 5,551	\$ 3,946	\$ 9,497
EXPENSES			
General and administrative	105,640	116,900	261,627
Research and development	<u>191,379</u>	<u>97,352</u>	<u>309,063</u>
Total expenses	<u>297,019</u>	<u>214,252</u>	<u>570,690</u>
OTHER INCOME (EXPENSE)			
Gain (loss) on sale of short-term investment	(119,567)	4,657	(114,910)
Interest income	186	146	332
Interest expense	<u>(1,562)</u>	<u>-</u>	<u>(1,562)</u>
	<u>(120,943)</u>	<u>4,803</u>	<u>(116,140)</u>
NET LOSS	(412,411)	(205,503)	(677,333)
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gain (loss) on investments net of reclassification adjustment	<u>(112,401)</u>	<u>78,138</u>	<u>(34,263)</u>
COMPREHENSIVE LOSS	<u>\$ (524,812)</u>	<u>\$ (127,365)</u>	<u>\$ (711,596)</u>

The accompanying notes are an integral part of these financial statements.

QUANTUM BIT INDUCTION TECHNOLOGY, INC.
(A Development Stage Company)
STATEMENT OF SHAREHOLDERS' DEFICIT
FROM JANUARY 28, 1999 (DATE OF INCEPTION) TO MARCH 31, 2001

	Comprehensive Income (Loss)	Common Stock		Paid In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	<u>Income (Loss)</u>	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>	<u>Income (Loss)</u>	<u>Total</u>
Balance at inception, January 28, 1999	\$ -	-	\$ -	-	\$ -	-	\$ -
Capital Contributed	-	-	-	1,000	-	-	1,000
Net Loss	<u>(59,419)</u>	-	-	-	<u>(59,419)</u>	-	<u>(59,419)</u>
Balance at March 31, 1999		-	-	1,000	(59,419)	-	(58,419)
Comprehensive income (loss):							
Net loss	(205,503)	-	-	-	(205,503)	-	(205,503)
Unrealized gain on investments	<u>78,138</u>	-	-	-	-	78,138	78,138
Comprehensive loss	<u>(127,365)</u>	-	-	-	-	-	-
Balance at March 31, 2000		-	-	1,000	(264,922)	78,138	(185,784)
Comprehensive income (loss):							
Net loss	(412,411)	-	-	-	(412,411)	-	(412,411)
Unrealized loss on investments	(34,263)	-	-	-	-	(34,263)	(34,263)
Reclassification adjustment for loss on sale of securities	<u>(78,138)</u>	-	-	-	-	(78,138)	(78,138)
Comprehensive loss	<u>(524,812)</u>	-	-	-	-	-	-
Issuance of common stock:							
For payment of liabilities		41,510,000	41,510	6,500	-	-	48,010
For fair market value of equipment		1,000,000	1,000	-	-	-	1,000
For services		300,000	300	-	-	-	300
For cash		<u>2,190,000</u>	<u>2,190</u>	<u>18,630</u>	-	-	<u>20,820</u>
Balance at March 31, 2001		<u>45,000,000</u>	<u>\$ 45,000</u>	<u>\$ 26,130</u>	<u>\$ (677,333)</u>	<u>\$ (34,263)</u>	<u>\$ (640,466)</u>

The accompanying notes are an integral
part of these financial statements

QUANTUM BIT INDUCTION TECHNOLOGY, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS

	For the Year Ended March 31,		January 28, 1999
	2001	2000	(Date of Inception) to March 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (412,411)	\$ (205,503)	\$ (677,333)
Adjustments to reconcile net loss to net cash used in operating activities:			
(Gain) loss on sale of short-term investments	119,567	(4,657)	114,910
Depreciation expense	587	-	587
Stock issued for services	300	-	300
Changes in working capital:			
(Increase) decrease in other receivables	13,780	(12,913)	(20,333)
Increase (decrease) in accounts payable and accrued liabilities	52,008	(9,165)	55,903
Net cash used in operating activities	(226,169)	(232,238)	(525,966)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from note payable	30,000	-	30,000
Sale of investments to finance operations	79,092	249,490	328,582
Proceeds from officers to finance operations	71,824	7,500	156,034
Proceeds from issuance of common stock	20,820	-	20,820
Net cash provided by financing activities	201,736	256,990	535,436
Net increase (decrease) in cash and cash equivalents	(24,433)	24,752	9,470
CASH AT BEGINNING OF YEAR	33,903	9,151	-
CASH AT END OF YEAR	\$ 9,470	\$ 33,903	\$ 9,470
NONCASH FINANCING AND INVESTING ACTIVITIES			
Contributions of short-term investments at cost	\$ 461,000	\$ 819,575	\$ 1,280,575
Withdrawal of short-term investments at cost	(745,279)	-	(745,279)
Change in unrealized gain(loss)	(112,401)	78,138	(34,263)
Stock issued for fair market value of equipment	1,000	-	1,000
Stock issued for payment of liabilities	48,010	-	48,010

The accompanying notes are an integral part of these financial statements.

QUANTUM BIT INDUCTION TECHNOLOGY, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JANUARY 28, 1999 (Date of Inception)
TO MARCH 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Organization

Quantum Bit Induction Technology, Inc. (the Company) is a development stage Company that was incorporated in Nevada on January 28, 1999. The Company's focus is quantum feedback control applied to the many worlds interpretation of quantum mechanics.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term securities purchased with maturity of three months or less to be cash equivalents.

Short-term Investments

The Company follows Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, the Company's short-term investments have been classified as available-for-sale and stated at their fair value. All short-term investments are available for current operations and are classified as current assets in the balance sheet. Unrealized holding gains and losses are included as a component of other comprehensive income until realized. Realized gains and losses are determined by the specific identification method and are reflected in income.

Property and Equipment

Property and equipment consists of computer equipment and are stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of three years. Routine repairs and maintenance are charged to operations as incurred while the cost of significant improvements are capitalized. Depreciation expense and accumulated depreciation was \$587 for the year ended March 31, 2001.

Income Taxes

The Company has adopted SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax basis of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce the deferred tax asset to the amount that will assure full realization.

QUANTUM BIT INDUCTION TECHNOLOGY, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JANUARY 28, 1999 (Date of Inception)
TO MARCH 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue Recognition

Currently, the Company's only source of income has been from consulting services, interest on money market accounts and gains on sale of securities. This income is recognized in the period in which the consulting services and interest income are earned or securities sold.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to significant concentrations of credit risk consist primarily of cash and investments.

The Company maintains cash and cash equivalents and investments with various major financial institutions. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that each change could materially affect the amounts reported in the financial statement.

Going Concern

Since inception, the Company has been considered a development stage company and has not generated any significant operating revenue. To fund its development stage activities to date, the Company has relied on funding by the Company's President and the sale of its common stock. There is a substantial doubt that the Company will generate sufficient revenues during 2002 to meet its operating cash requirements. Accordingly, the Company's ability to continue operations through 2002 depends on its success in obtaining equity or debt financing in an amount sufficient to support its operations. This raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from this uncertainty. The Company is pursuing a strategy to raise sufficient capital through loans and/or private securities offerings.

QUANTUM BIT INDUCTION TECHNOLOGY, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JANUARY 28, 1999 (Date of Inception)
TO MARCH 31, 2001

2. INCOME TAXES

As of March 31, 2001 the Company has net operating tax loss carry forwards of approximately \$668,612. The carry forwards begin to expire in the year 2019.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. For financial reporting purposes, a valuation allowance has been provided to offset the deferred tax asset related to these carry forwards, as it is more likely than not that these assets will not be realized.

Significant components of the Company's deferred tax assets at March 31, 2001 are as follows:

Deferred tax assets:	
Net operating loss carryforwards	\$ 234,014
Less: valuation allowance	<u>(234,014)</u>
Net deferred tax assets	<u>\$ -</u>

3. PAYABLE TO OFFICER

The Company has a payable to the President of the Company for contributions from the President to fund the operations of the Company since inception through March 31, 2001.

4. NOTE PAYABLE

On June 28, 2000, the Company entered into an unsecured promissory note agreement of \$30,000 with an individual. The note payable bears interest at 6.94% with a due date of June 28, 2001. No principal or interest payments were made during the year.

The individual has also been issued 300,000 shares of the Company's common stock and the option to purchase 300,000 additional shares of the Company's common stock at a price of \$0.15 per share for up to one year after retirement of the promissory note or June 28, 2002. The Company has calculated the fair market value of the option using the Black-Scholes option pricing model and determined that the fair market value was not material.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JANUARY 28, 1999 (Date of Inception)
TO MARCH 31, 2001

5. FACILITIES LEASE

On May 31, 2001, the Company entered into a non-cancelable operating lease for office space that expires on May 31, 2002. The Company did not incur any rent expense for the years ended March 31, 2001 and 2000 and for the period from inception (January 28, 1999) to March 31, 2001. Future minimum annual rental payments under the current operating lease are \$5,950 and \$4,250 for the calendar years of 2001 and 2002, respectively.

6. COMMON STOCK

In addition to shares that were issued directly to the Board of Directors, the Board of Directors and the President of the Company control approximately 66.7% and 7.2% respectively of the Company's issued stock at March 31, 2001.